

# HOUSE BUDGET COMMITTEE

## Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

B-71 Cannon HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ [www.house.gov/budget\\_democrats](http://www.house.gov/budget_democrats)

May 20, 2004

## Budget Resolution Conference Report: Republicans Increase Debt Ceiling, Deepen Debt, and Fail to Budget Responsibly

Yesterday the House of Representatives approved the Fiscal Year 2005 budget resolution conference report by a narrow margin of 216-213. Nine Republicans joined every Democrat in voting to oppose this deeply flawed budget. In the Senate, the most recent reports indicate that a majority of Senators remain opposed to the conference report, and prospects for its approval therefore remain uncertain.

Opposition to the conference report is certainly justified. At the most fundamental level, the conference report is, unfortunately, simply not a credible budget resolution. With few exceptions, it provides meaningful budget policy for only a single year — thus masking the true impact of Republican policies. At the same time, the budget conference report raises the debt limit in the House and deepens the deficit while providing no plan to bring the budget back to balance and no meaningful budget enforcement rules.

- ***Increases Debt Limit in the House*** — Because of House rules, a vote to pass the conference report was also a vote to pass a House bill increasing the debt limit by \$690 billion, to a new limit of \$8.1 trillion.
- ***Historic Failure to Provide True Multi-Year Budget*** — The Budget Act requires a budget resolution to provide spending and revenue levels for five years. While the conference report appears to provide five years of numbers, with few exceptions this is really a one-year budget. Most of the numbers for years after 2005 are not meaningful. For example, they do not include the full cost of the Majority's stated tax agenda, and they provide \$122 billion less in defense funding than the President has requested for 2006 through 2009. As a result, this is not a realistic budget, and its deficit totals vastly understate the consequences of Republican policies. The last time that the budget resolution conference report did not provide policy numbers for more than one year was 1979 — a quarter of a century ago.
- ***One-Year Budget Provides No Plan for Future*** — By providing only a single year of meaningful budget policy, the conference agreement provides no plan to reduce the deficit and no commitment that critical resources for defense, education, veterans, and other priorities will be available in future years.

- ***Provides No Plan to Balance the Budget*** — The Republican budget resolution conference report deepens the deficit and offers no plan to bring the budget back to balance.
- ***Rejects Meaningful Pay-As-You-Go (PAYGO) Budget Enforcement Rules*** — The conference report fails to provide the balanced and effective Senate PAYGO rules included in the Senate-passed budget resolution. Instead, the conference report limits the PAYGO rules to only a single year, covers only the Senate and not the House, and further provides an exemption for \$27.5 billion in tax cuts covered under reconciliation.
- ***Chooses More Tax Cuts Over Critical Priorities*** — The budget conference report cuts funding for key priorities to help fund \$55.2 billion of additional tax cuts.

These and other shortcomings of the conference report are discussed in greater detail in the sections that follow. A table comparing the conference report with the House-passed and Senate-passed budget resolutions is attached.

## **Major Flaws of Budget Resolution Conference Report**

***Increases Debt Limit in House*** — The vote in the House to adopt this budget resolution conference report was also a vote to increase the debt limit, a step which the Administration has warned is likely to be needed this summer. House Rule XXVII (the “Hastert Rule”) dictates that an enacted budget resolution conference report automatically spins off a separate bill to increase the debt limit without a separate vote. This process was used last year to increase the debt limit by a record \$984 billion. The conference report statement of managers indicates that the spin-off bill would increase the debt limit by \$690 billion, from the current limit of \$7.384 trillion to a new limit of \$8.074 trillion. There is some chance that the Hastert Rule’s spin-off bill could be construed in the Senate to be a reconciliation bill, thus allowing Congress to increase the debt limit with only a simple majority vote in the Senate and without any vote at all in the House. Since President Bush has taken office, Republicans already have increased the debt ceiling twice, by a total of more than \$1.4 trillion.

***Unrealistic Budget Marks Latest Deterioration of Budget Process*** — With few exceptions, the conference report includes policy-based numbers only for 2005 — and provides only meaningless placeholder numbers for 2006 through 2009. The Budget Act requires that the budget resolution cover five years: this conference report clearly violates the spirit of that requirement by providing in essence only a shell of a five-year budget resolution. It has been a quarter of a century since a budget resolution conference report covered only one year.

***Hides True Extent of Deficit Problem*** — The Republican budget resolution hides a serious worsening of the deficit outlook. Though the resolution fundamentally represents an agreement for one year only, the conference report includes artificial future-year numbers to comply with the letter of the Budget Act. Those future-year numbers far understate the deficits that would result under the acknowledged Republican agenda. In one conspicuous instance, the resolution underfunds the President’s defense program in 2006 through 2009 by \$122 billion in budget

authority, and \$100 billion in outlays — and in a second instance, the resolution omits the full cost of the Republican tax agenda.

***Realistic Deficit Numbers No Better Than President’s Budget*** — As the table below shows, accounting for only these two omissions in the resolution would imply deficits of at least \$245 billion in every year. Over six years, the deficit is \$1.4 trillion. Deficits will be even worse when the Alternative Minimum Tax (AMT) is repaired, the war on terror and the war in Iraq are fully funded, and the President pursues his agenda to privatize Social Security and Medicare. The budget resolution fails to reveal any deficit figures at all after 2009, but CBO’s analysis of the President’s budget projected deficits of at least \$242 billion for each of the next ten years. The deficits proposed by this budget resolution stand in stark contrast to those included in the first Bush Administration budget, which projected that — after the enactment of its proposed tax cuts — there would be *surpluses* that increased every year, from \$262 billion in 2004 to \$420 billion in 2009.

**The Deficit Is Worse Than the Resolution Indicates**  
(Billions of Dollars)

	2005	2006	2007	2008	2009	2005-2009
Unified Deficit in Resolution	367.403	255.017	193.793	186.404	174.161	1,176.778
Fund President’s Defense	N.A.	8.539	19.137	30.177	42.052	99.905
Fund President’s Tax Cuts	0.253	23.898	32.019	33.758	45.413	135.341
<b>Corrected Deficit in Resolution</b>	<b>367.656</b>	<b>287.454</b>	<b>244.949</b>	<b>250.339</b>	<b>261.626</b>	<b>1,412.024</b>

***Fails to Include Meaningful Pay-As-You-Go (PAYGO) Rules*** — The conference report fails to provide the balanced and effective Senate PAYGO point of order that was included in the Senate-passed budget resolution. That 60-vote point of order — which lasted for five years — would have required that new mandatory spending increases and new tax cuts be deficit-neutral. The conference report offers a mere shell of that provision, weakening it in two critical ways. First, the PAYGO provision included in the conference report lasts for only one year — not five years — and it expires on April 15, 2005, before the end of the fiscal year.

Second, the conference report exempts from the PAYGO rule the tax cuts included in this budget resolution’s reconciliation provisions. Although the amount of reconciled tax cuts is approximately equal to the cost of a one-year extension of the three expiring middle-income tax cuts, there is nothing in the resolution to require that a reconciliation bill include these tax cuts rather than others. Additional tax cuts, if offset, could also be included in the fast-track

reconciliation bill. Meanwhile, the conference report includes no PAYGO restraint whatsoever in the House. This weak PAYGO provision fails to meet the standard of the bipartisan PAYGO statute that was accepted by Republicans in 1990 and 1997, and that proved its worth as the budget moved from then-record deficit to record surplus over the eight years of the Clinton Administration.

***Fails to Protect Social Security*** — Social Security faces intense budgetary pressure from the aging of the population, starting in 2008 with the first retirements of the members of the baby-boom generation. If current projections prove accurate and there is no change in law, Social Security's payroll tax will fail to cover benefits in 14 years, and the Social Security Trust Fund will be exhausted in 38 years. Every Social Security refinancing proposal of every political stripe requires additional revenues at least for a transition period. This budget resolution not only fails to attempt to restore the budget surpluses that could provide such transition funding, but it also spends the entire \$1.0 trillion Social Security Trust Fund surplus from 2005 to 2009.

***Slashes Domestic Programs*** — The conference agreement provides \$864.3 billion for 2005 discretionary funding, including \$50 billion for operations in Iraq and Afghanistan. Excluding funding for these operations, the total is \$8.6 billion less than the President's budget. However, the conference agreement includes a gimmick to raise the total by \$7.2 billion when the House or Senate passes its first appropriations bill, providing a final level of \$821.4 billion plus \$50 billion for Iraq and Afghanistan. That \$821.4 billion is \$1.5 billion less than the President's level for 2005. The conference agreement increases funding for both national defense and homeland security, and cuts 2005 funding for domestic programs by \$7.6 billion below a freeze at the 2004 enacted level and by \$18.3 billion (4.8 percent) below the level needed to maintain services at the 2004 level. Excluding the increases for homeland security, the conference agreement cuts the remaining domestic programs even more. The conference agreement has deep cuts to environmental protection, community and regional development, and law enforcement programs.

***Underfunds Veterans*** — While Republicans may tout the fact that their budget contains more funding than the President's budget for appropriated veterans programs, the conference agreement provides only \$31.0 billion for appropriated veterans programs for 2005, which is \$1.3 billion less than the House Veterans' Affairs Committee on a bipartisan basis stated is needed for these vital veterans health care programs.

***Includes Additional Tax Cuts That Add to Deficit*** — The budget resolution conference report provides reconciliation protection for \$27.5 billion in tax cuts over five years. This amount is sufficient to extend for one year the three middle-income tax provisions in the President's budget — the \$1,000 per child tax credit, 10-percent tax bracket, and accelerated marriage penalty relief. The budget also provides \$27.7 billion in additional tax cuts that are not reconciled. These tax cuts come on the heels of \$1.4 trillion in tax cuts in 2001 and \$350 billion in tax cuts in 2003. With resulting debt service, the cost of these tax cuts already totals about \$2.25 trillion. The long-term cost of making the 2001 and 2003 tax cuts permanent — as the President proposes — would be enough to restore long-term solvency for *both* Social Security and Medicare.

***Continues Failed Economic Policies*** — Even with this month’s improving economic news, President Bush still has the worst jobs record since the Great Depression. The economy has lost 1.5 million jobs — 2.2 million private-sector jobs — since the President took office. From its first days in office, this Administration claimed that its policy of massive tax cuts for those who needed the help the least was a jobs program. However, that Bush prediction of job growth has been met with an actual job decline. Meanwhile, the Republican program has yielded one of the worst records of economic growth since World War II — exceeding only the records of President Ford and the first President Bush.

***Democrats Provided Better Alternative*** — The Congress did not have to pursue a budget that made our fiscal problems worse while sacrificing important national priorities. The House Democratic budget alternative achieved balance by 2012 while still providing more funds than the Republican budgets for priorities such as education, veterans health care, the environment, and homeland security. The Democratic alternative also reimposed and complied with the PAYGO budget enforcement rule, which helped wipe out the deficit and achieve surpluses in the 1990s.

## **Other Areas of Interest**

***Matches the President’s Defense Request in 2005 Only*** — The conference agreement provides the President’s full request for defense in 2005 plus \$50 billion for continuing operations in Iraq and Afghanistan. Over 2006 through 2009, however, the conference report reflects a reduction from the President’s request totaling \$122 billion. This reduction surpasses the \$60 billion cut reflected in the Senate budget. The additional funding for Iraq and Afghanistan operations for 2005 matches the House-passed level and surpasses the Senate-passed level of \$30 billion. The conference agreement includes the outlays resulting from these additional funds in the total spending amounts and calculations of deficits and debt — unlike the Senate budget. Like the House-passed budget, the conference agreement includes only a deficit-neutral reserve fund that does not provide resources to address the reduction in benefits that widowed spouses of military personnel face when they become eligible to receive Social Security benefits at age 62.

***Does Not Fill Gaps in President’s Homeland Security Budget*** — A summary of the conference report issued by the Majority indicates that the conference report fully accommodates the President’s request for homeland security. While the President’s budget does increase funding for homeland security overall, it also reduces funding for first responders and port security grants, and freezes funding for some aspects of aviation security.

***Recedes to House Resolution on Transportation Bill*** — The conference agreement recedes to the House Republican resolution and provides for a transportation reauthorization bill of approximately \$273 billion. This is approximately \$45 billion less than the Senate-passed reauthorization bill and \$11 billion less than the House-passed bill. The conference agreement does include a contingency provision allowing for a more expensive transportation reauthorization bill; any reauthorization bill above what is contained in the conference

agreement, however, must increase receipts flowing into (or reduce mandatory outlays from) the Highway Trust Fund.

***Drops Reconciled Cuts to Key Entitlements*** — The House Republican budget included reconciliation instructions to five House authorizing committees to report legislation by July 15 that would cut spending in mandatory programs by \$13.2 billion over five years. The Senate-passed budget contained no such provisions. The conference agreement does not include any reconciliation instructions directing committees to cut mandatory spending.

***Medicaid Spending*** — The Republican conference report does not include reconciliation instructions to cut Medicaid. The conference report includes an increase of \$438 million in 2005, which is the cost in 2005 associated with reauthorizing welfare reform. Over five years, the budget includes a net spending cut for mandatory health programs of \$905 million. However, since the budget also assumes new spending of \$747 million for welfare reauthorization (H.R. 4) and the Coal Accountability and Retired Employee Act for the 21st Century (H.R. 313), mandatory health programs face a gross spending cut of \$1.6 billion — *that is, these programs must be cut by \$1.6 billion in order to spend \$747 million and still hit a savings target of \$905 million.* Medicaid constitutes over 90 percent of the dollars for these programs, so it is likely that Medicaid will bear the brunt of these spending cuts.

***Ignores the Needs of the Public Health System*** — The Republican conference agreement cuts appropriations for public health by \$922 million (1.7 percent) below the 2004 enacted level, when adjusted for inflation. Under these funding levels, NIH faces a cut of \$480 million below the 2004 level, when adjusted for inflation.

***Cuts Environmental Funding*** — The Republican conference agreement provides only \$29.3 billion in discretionary funding for environmental protection in 2005, a cut of \$930 million (3.1 percent) from last year's level. These cuts could result in reduced investments in clean air, safe drinking water, and the cleanup of toxic waste sites. The conference report includes Senate language providing that an additional \$500 million may be made available for wildland fire suppression under certain circumstances.

***Underfunds Education*** — The conference agreement provides \$81.0 billion for education, training, and social services for 2005. While this total is \$642 million more than the President requested, it is still \$2.9 billion less than the Senate-passed resolution. Assuming a freeze at the 2004 enacted level for all programs not singled out for an increase, the conference agreement provides \$8.8 billion less than the amount authorized under the No Child Left Behind Act for elementary and secondary education programs for 2005.

***Exposes Safety Net Programs to Major Cuts*** — The Republican budget resolution conference report slashes funding for annually appropriated income security programs in 2005 by \$3.1 billion, or 6.3 percent, below the amount needed to maintain current service levels. The major programs affected by this cut are public housing, Section 8 housing, the child care and development block grant, low-income home energy assistance, and nutritional assistance for women, infants, and children. Section 8 housing programs account for 42 percent of annually

appropriated income security funding. If this funding cut were applied proportionally, Section 8 would receive \$1.3 billion less than the amount needed to maintain current services, and approximately 200,000 families would lose affordable housing.

***Drops Pay Parity Provision*** — The conference report does not include language in the Senate budget resolution stating that federal civilian and military personnel should receive the same annual pay adjustment. The President's 2005 budget increased federal civilian pay rates by 1.5 percent in January 2005, well below the average 3.5 percent pay raise for military personnel. The budget ignored the tradition of "pay parity" for civilian and military employees. The House budget resolution was silent on the issue of pay parity and when Democrats attempted to add sense of Congress language in Committee, it was voted down. On March 30, 2004, the House passed H. Res. 581, Pay Parity for Federal Personnel, expressing the sense of the House that federal civilian and military personnel should receive the same percentage pay increase in 2005.

## FY 2005 Budgets: House, Senate, and Conference Agreement

<i>Item</i>	<i>House</i>	<i>Senate</i>	<i>Conference</i>
<b>Pay-As-You-Go (PAYGO) point of order</b>	None	Creates a five-year PAYGO point of order in the Senate, covering all new mandatory spending and tax cuts.	Creates a PAYGO point of order in the Senate only, for one year only, exempting \$27.5 billion of reconciled tax cuts.
<b>Debt limit</b>	\$8.087 trillion in 2005, an increase of \$703 billion.	\$8.051 trillion in 2005, an increase of \$667 billion.	\$8.074 trillion in 2005, an increase of \$690 billion.
<b>Unified deficit in 2005</b>	\$376.8 billion	\$356.0 billion	\$367.4 billion
<b>Tax cuts protected through reconciliation instructions</b>	\$137.6 billion over five years	\$80.6 billion over five years	\$27.5 billion, enough to extend for one year the three middle-income provisions in the President's budget.
<b>Tax cuts not reconciled</b>	\$15.0 billion	\$58.0 billion	\$27.7 billion
<b>Mandatory spending cuts reconciled to committees</b>	Requires five House committees to cut mandatory spending by \$13.2 billion over five years.	None	None
<b>Discretionary total (excluding war reserve)</b>	\$821.3 billion	\$819.3 billion	\$821.4 billion, after a gimmick raises the Senate cap from \$814.1 billion.
<b>War reserve for military in Iraq and Afghanistan</b>	\$50 billion	\$30 billion.	\$50 billion
<b>Domestic funding (excludes defense and international appropriations)</b>	\$8.7 billion below amount needed to maintain services at current levels.	\$16.3 billion below amount needed to maintain services at current levels.	\$11.1 billion below amount needed to maintain services at current levels after gimmick to raise cap by \$7.2 billion – technically, \$18.3 billion short.
<b>Highway bill</b>	\$273 billion over five years.	\$256 billion over five years.	\$273 billion over five years, \$45 billion below Senate-passed transportation reauthorization bill and \$11 billion below House-passed reauthorization.



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### **Vote for Budget Resolution Was Vote to Increase Debt Limit to More Than \$8 Trillion**

Under the “Hastert Rule” (House Rule XXVII), an enacted budget resolution conference report automatically — without debate, and without a vote — spawns a House-passed bill to increase the debt limit to the amount specified in the resolution. Thus, when Republicans voted for S. Con. Res. 95 this Wednesday, they voted to raise the debt ceiling by \$690 billion — from \$7.384 trillion to \$8.074 trillion.

This is the third-largest debt limit increase in the history of our country — coming on the heels of the largest increase in history, less than one year ago (enacted May 27, 2003 — \$984 billion).

This debt-limit increase is larger than the amount of debt accumulated by our nation over its first 200 years of existence (in 1976, the statutory debt was only about \$630 billion).

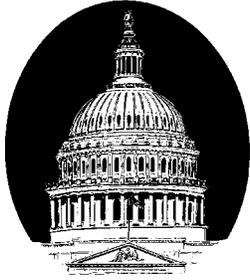
This is the third debt limit increase by the Bush Administration (in addition to the May 2003 increase, Republicans raised the debt limit by another \$450 billion on June 28, 2002).

Taken together, these three increases in the debt limit add up to \$2.124 trillion — a 36 percent jump. Thus, this Administration in four years has increased by more than one third the debt that it took more than two centuries and two world wars to accumulate.

But at the beginning of his term, President Bush had said that, even with his tax cuts, the debt limit would not need to be increased until 2008. And he said that the government could in effect redeem all of its bonds held by the public by 2011.

Instead, we have the largest debt limit increase by any Administration in history, and a total debt growing faster than our economy — a sure recipe for disaster.

<b>Date</b>	<b>Debt Limit</b>	<b>Amount of Increase</b>
August 5, 1997	\$5.950 Trillion	\$450 Billion
June 28, 2002	\$6.400 Trillion	\$450 Billion
May 27, 2003	\$7.384 Trillion	\$984 Billion
Pending	\$8.074 Trillion	\$690 Billion



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## Notes to Accompany Recess Packet Charts on Deficits and Debt

### Chart One: “A Fiscal Opportunity Lost”

Until 1981, federal budget deficits were small. In 1981, President Reagan, the Republican Senate, and a Republican-dominated coalition in the House cut taxes, increased defense spending, and cut other spending — but not enough to make up for the tax cuts. As a result, deficits ballooned. The national debt quadrupled over the 12 years of the Reagan and George H.W. Bush Administrations. The budget deficit in 1992 was the largest in history.

In 1993, President Clinton and the Democratic Congress passed the largest deficit reduction package in history. Of every \$15 saved through legislative action over 1992 through 1998, the Democratic Congress of 1993-1994 saved \$14. As a result, the budget improved in each and every year of the Clinton Administration. Spending declined as a percentage of the gross domestic product (GDP) in each and every year of the Clinton Administration. Spending as a percentage of GDP was lower in every year for which President Clinton submitted a budget than it was in any year of the Reagan and George H.W. Bush Administrations.

In 1998, we had the first balanced budget in 29 years.

In 1999, we had the first balanced budget without reliance on the Social Security Trust Fund surplus in 39 years.

In 2000, we had the first balanced budget without reliance on the Social Security and Medicare Trust Fund surpluses in the history of the Medicare program.

When President Clinton left office, the Bush Office of Management and Budget projected a ten-year surplus of \$5.6 trillion. President Bush promised never to touch the Social Security Trust Fund surplus, and to pay off the national debt held by the public by 2011.

But President Bush's tax cuts, which were designed to dissipate the entire surplus beyond the Social Security and Medicare Trust Fund surpluses, proved wildly excessive. When the economy weakened, there was no budgetary reserve to absorb the shock. The budget plunged immediately into record deficit. The 2003 deficit was the largest in history; the 2004 deficit will be larger still. The Congressional Budget Office (CBO) projects that the budget will remain in large deficit throughout the next ten years and beyond if the President's policies are enacted.

### **Chart Two: "More Accurate Estimate Shows Even Bleaker Budget Outlook"**

At the beginning of his Administration, President Bush's Office of Management and Budget projected that the budget would remain in the substantial surplus that he inherited from President Clinton, and that the surplus would grow — even with the Bush tax cuts, disproportionately targeted to the people who needed the help the least.

However, the budget plunged into record deficit. The budget has worsened in every year of the Bush Administration, after it improved in every year of the Clinton Administration. If the President's budget is adjusted for his proposals that were not fully included in his own projections (including his defense buildup, the costs of the war in Iraq, and the repair of the individual alternative minimum tax (AMT)), then the budget will improve only marginally for a short time, and then will deteriorate until by ten years from now the deficit will be even larger than it is this year.

If, instead, the President and the Republican Congress were to do absolutely nothing — including allowing all of the tax cuts to expire — then the budget would return to surplus within the ten-year legislative window.

### **Chart Three: "Contrary to 2001 Estimates, Bush Policies *Increase* National Debt"**

At the beginning of his Administration, President Bush's Office of Management and Budget projected that, even with his tax cuts, the budget would remain in the record surplus that he inherited, and that the surplus would grow. As a result, the President predicted that the Treasury would pay off the entire national debt held by the public by 2011. (To be precise, the President's budget stated that the Treasury would buy back all of the bonds that would be offered for sale by private holders, and would have excess cash in amounts greater than the face value of all of the Treasury bonds that private owners would choose not to sell back.)

However, President Bush's tax cuts quickly proved excessive, and the budget plunged into record deficit. The 2003 deficit was the largest in history, and the 2004 deficit will be larger still.

As a result, instead of falling to zero, the national debt has soared. According to CBO, if the President's policies are enacted, by 2014 the debt held by the public will rise to \$7.251 trillion — almost twice what it was when President Bush inherited the previous Administration's legacy of fiscal responsibility.

### **Chart Four: “Bush Budget Raises the Debt Tax”**

Like any household, the federal government must pay the interest due on its accumulated debt — or face the most serious consequences. Every American household must pay taxes to cover that interest cost. However, in exchange for those taxes, the American family receives absolutely nothing in return — no national defense, no homeland security, no education, no health research, no national parks, no disaster response — just the prevented loss of the nation's financial solvency.

This “debt tax” is the only tax that never can be repealed. And it soars under Republican policies.

In 2004, the debt tax per family of four is \$4,392 (according to the Congressional Budget Office's estimates of the consequences of the President's budget policies). However, by 2014, as deficits and debt pile up, that debt tax will soar to \$8,924. And if interest rates should rise faster than already anticipated because of that massive federal government demand for credit, the debt tax will climb faster still.

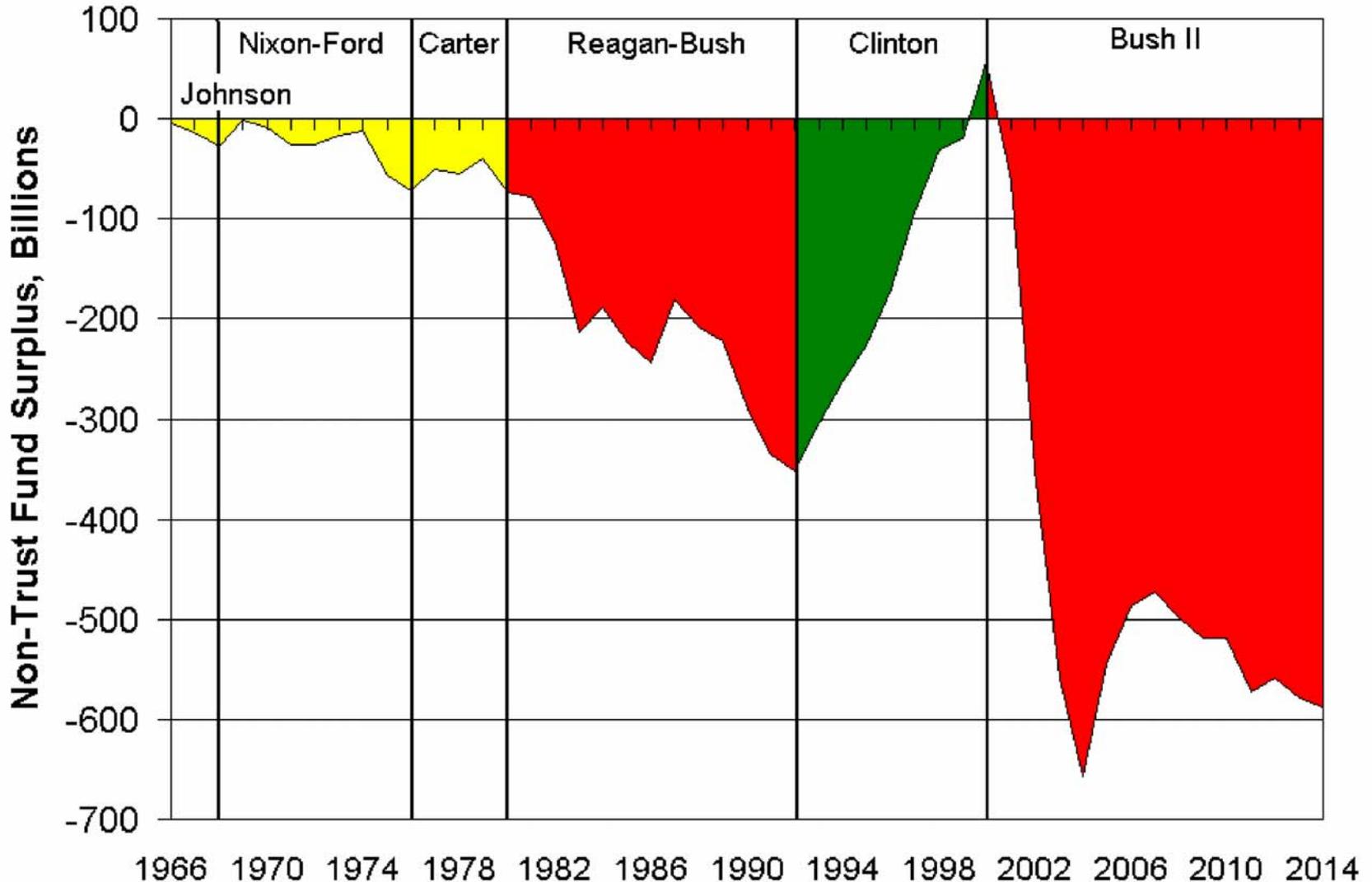
# **Memorial Day Recess Package**

House Budget Committee  
Democratic Staff

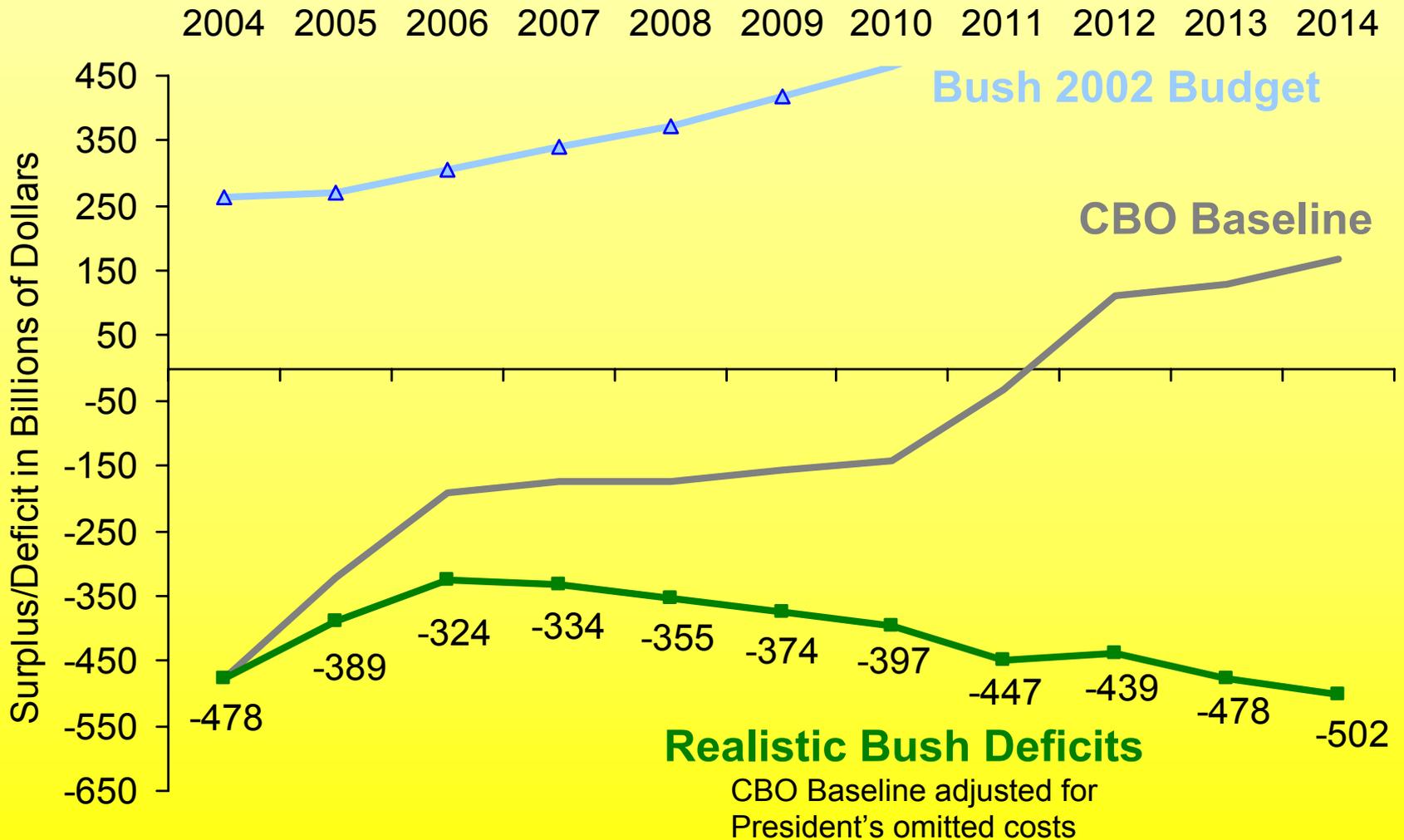
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# A Fiscal Opportunity Lost

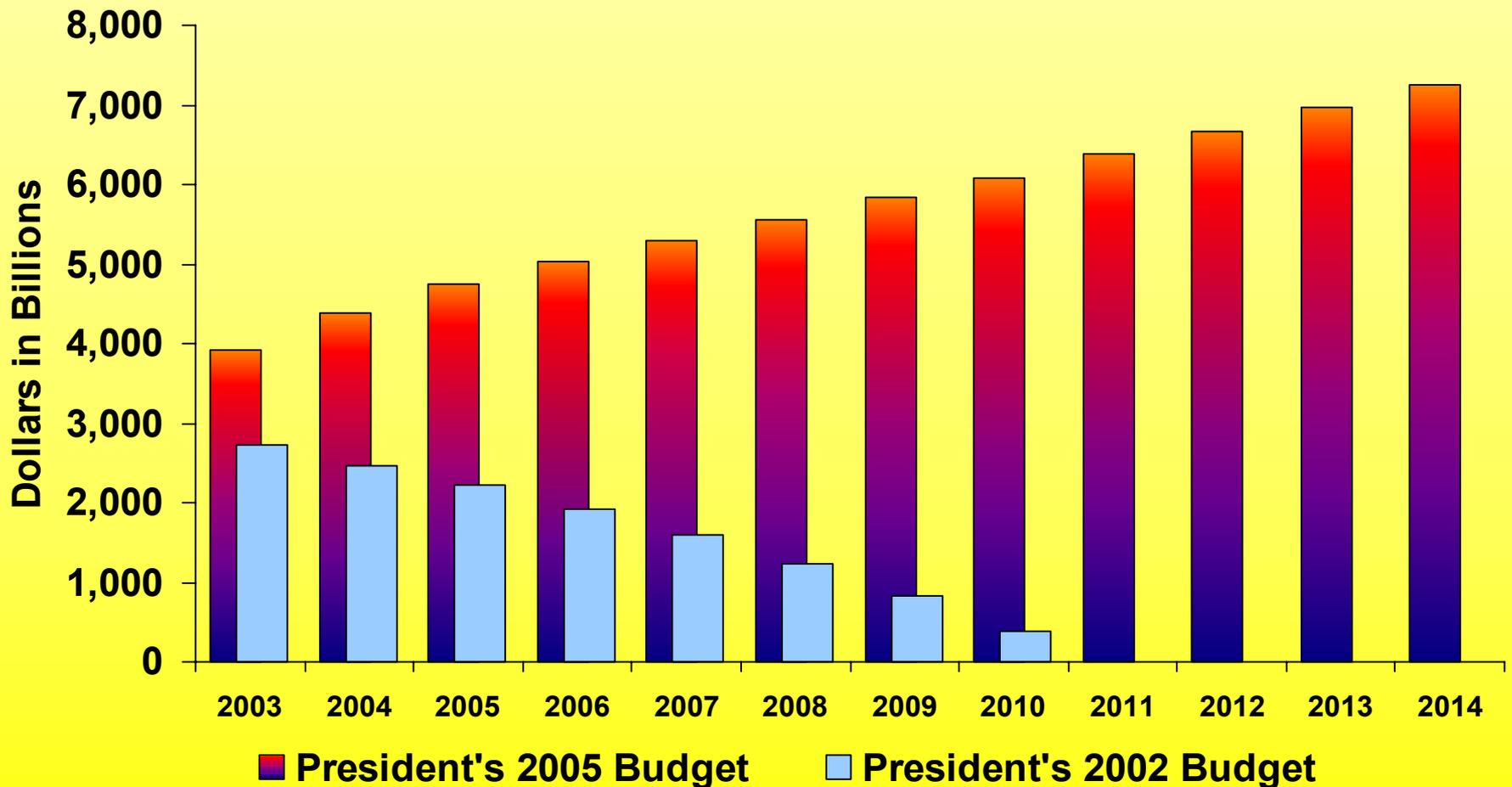
Total Surplus or Deficit without Social Security or Medicare Trust Fund Surpluses



# More Accurate Estimate Shows Even Bleaker Budget Outlook



# Contrary to 2001 Estimates, Bush Policies *Increase* National Debt



# Bush Budget Raises the Debt Tax

## Federal Gross Interest per Family of Four

